

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 AEC-11 AID-20 CEA-02 CIAE-00 CIEP-02

COME-00 DODE-00 EB-11 FEA-02 FPC-01 H-03 INR-10

INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01 SAM-01

SCI-06 SPC-03 SS-20 STR-08 TRSE-00 NIC-01 PA-04

USIA-15 PRS-01 DRC-01 /175 W
----- 037238

R 081432Z MAR 74

FM AMEMBASSY HELSINKI

TO SECSTATE WASHDC 7255

INFO AMEMBASSY STOCKHOLM

AMEMBASSY OSLO

AMEMBASSY COPENHAGEN

AMEMBASSY MOSCOW

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E.O.: 11652: N/A

TAGS: ENRG, FI, UR

SUBJECT: PRICE OF SOVIET OIL STILL NOT SET

1. SUMMARY: THE SMUG FEELING OF MANY FINNISH OFFICIALS THAT FINLAND COULD COUNT ON ASSURED SUPPLIES OF OIL FROM THE USSR AT RESONABLE PRICES HAS PRETTY MUCH DISAPPEARED AS NEGOTIATIONS OVER THE PRICE OF CRUDE OIL DRAG ON WITHOUT RESOLUTION. END SUMMARY.

2. IT HAD EARLY IN NEGOTIATIONS WITH THE USSR BECAME CLEAR THAT PRICE FINLAND PAID FOR ITS IMPORTS OF REFINED PRODUCTS FROM SOVIET UNION WOULD BE BASED ON ROTTERDAM QUOTATIONS. FINNISH NEGOTIATORS WERE NOT TOO HAPPY OVER THE USE OF THIS BASIS, SINCE IT REPRESENTS AUCTION PRICES ESTABLISHED FOR MARGINAL QUANTITIES AND IS CONSEQUENTLY MORE "NERVOUS" AND
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REPORTEDLY RUNS HIGHER THAN PRICES ESTABLISHED FOR LONGER

TERM TRANSACTIONS. (REFINED PRODUCT ACCOUNTS FOR AROUND THIRD OF PETROLEUM IMPORTS FROM USSR.) NO AGREEMENT WAS REACHED ON BASIS FOR ESTABLISHING PRICE FOR CRUDE OIL, SOME 6.5 MILLION METRIC TONS OF WHICH FINLAND HOPES TO IMPORT UNDER THIS YEAR'S TRADE AGREEMENT.

3. DURING PRESIDENT KEKKONEN'S VISIT TO MOSCOW FEBRUARY 15-19, THE PRICE OF CRUDE WAS A MAJOR TOPIC OF CONVERSATION, AND KEKKONEN AND KOSYGIN REPORTEDLY AGREED TO DIRECT THEIR RESPECTIVE NEGOTIATORS TO REACH AGREEMENT. ON MARCH 7, FINNISH NEGOTIATORS RETURNED TO HELSINKI FOR SECOND TIME SINCE THEN WITHOUT REACHING AGREEMENT ON PRICE. THE NEGOTIATORS EXPECT ANOTHER MEETING IN HELSINKI DURING MARCH. ONE INTERPRETATION OF THE SITUATION IS THAT THE SOVIETS HAVE "SET" THEIR PRICE, POSSIBLY AROUND \$11 A BARREL, AND IT IS NOW UP TO FINNS TO TAKE IT OR LEAVE IT.

4. MEANWHILE, GROUP OF INDUSTRIAL FIRMS COMPOSED OF LARGEST FORESTRY-INDUSTRY CORPORATIONS AND INCLUDING STATE-OWNED ENTERPRISES HAS FORMED COOPERATIVE "OIL PURCHASING GROUP" AND ONE OF ITS MEMBER COMPANIES HAS APPLIED TO STATE LICENSING BOARD FOR PERMISSION TO IMPORT OIL. (IMPORTATION OF LIQUID FUEL INTO FINLAND HAS FOR MANY YEARS BEEN SUBJECT TO LICENSING PROCEDURES.) AT THE SAME TIME, IT WAS LEAKED TO THE PRESS THAT THE STATE-OWNED REFINING MONOPOLY, NESTE, HAD REQUESTED PERMISSION TO IMPORT A LARGER THAN NORMAL CONSIGNMENT OF OIL THAT WOULD BE PURCHASED AT "EXTREMELY LOW PRICE". NESTE IS TRYING TO RETAIN ITS "MONOPOLY" STATUS FOR IMPORTS OF CRUDE OR HEAVY FUEL OIL FOR INDUSTRIAL USE.

5. COMMENT: AS LONG AS FINNISH NEGOTIATORS CAN BY ONE MEANS OR ANOTHER ACHIEVE CRUDE OIL PRICE AT REASONABLE LEVEL, IT IS GENERALLY GREED THAT MECHANISM OF THE BILATERAL TRADING ACCOUNT WILL PROVIDE RELATIVELY FAVORABLE "FINANCING" TERMS. FOR ONE THING, THE OIL DEFICIT WITH USSR CAN (ACCORDING TO AGREEMENT REACHED BETWEEN KEKKONEN AND KOSYGIN IN FEBRUARY) BE CARRIED OVER TO SUCCESSIVE YEARS; THE USSR IS APPARENTLY WILLING TO WAIT LIMITED OFFICIAL USE

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FOR REPAYMENT UNTIL FINLAND CAN RAISE DELIVERIES OF GOODS TO PAY FOR OIL--A PROCESS THAT WILL TAKE AT LEAST SEVERAL YEARS. FOR ANOTHER, THE DEMAND-DEFLATIONARY IMPACT OF THE HIGHER COST OF SOVIET OIL WILL BE SOFTENED SOMEWHAT BY THE USSR'S WILLINGNESS TO ACTIVELY SEARCH FOR SUITABLE IMPORTS AND TO EXPEDITE PLANS FOR "JOINT PROJECTS" (TURNKEY FINNISH SALES OF FACTORIES AND CONSTRUCTION PROJECTS) THAT THE FINNS ENVISAGE AS BEING A

MAJOR PART OF ITS PAYMENT PROGRAM. IT IS UNAVOIDABLE,
HOWEVER, THAT SOME OF FINNISH DEFICIT WILL EXPRESSITSELF
IN TRADE IMBALANCES WITH OTHER PARTNERS AS LARGER PORTION
OF THE AVAILABLE EXPORTS IS ABSORBED BY THE USSR AND AS
DEMAND FOR IMPORTS OF WESTERN CAPITAL GOODS NECESSARY TO
EXPAND OUTPUT OF EXPORTS INDUSTRIES IS STIMULATED. ANOTHER
ASPECT IS THE PSYCHOLOGICAL IMPACT ON FINLAND'S PLACE IN
THE CONSTELLATION OF NATIONS AS IMPORTS FROM THE USSR
GROWS THIS YEAR FROM AROUND 12 PERCENT TO SOMETHING APPROACHING
18-20 PERCENT OF FINLAND'S TOTAL IMPORTS. THIS COULD WELL MAKE
THE USSR FINLAND'S LARGEST RADING PARTNER, OVERTAKING
BOTH SWEDEN AND GERMANY.
KREHBIEL

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, NEGOTIATIONS, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 08 MAR 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974HELSIN00492
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: HELSINKI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740358/aaaaccbm.tel
Line Count: 128
Locator: TEXT ON-LINE
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 17 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <17 APR 2002 by martinml>; APPROVED <11 JUN 2002 by morefirh>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PRICE OF SOVIET OIL STILL NOT SET
TAGS: ENRG, FI, UR
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005